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Message Text

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ACTION ARA-10

INFO OCT-01 AF-10 EUR-12 EA-07 IO-13 ISO-00 INT-05
AID-05 CIAE-00 COME-00 EB-08 FRB-03 INR-07
NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 L-03 H-01 NSC-05 SS-15
STR-04 CEA-01 PA-01 PRS-01 FEA-01 OES-06 /138 W
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R 111920Z APR 77
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TO SECSTATE WASHDC 4300
AMEMBASSY LIMA
AMEMBASSY LA PAZ
AMEMBASSY LUSAKA
AMEMBASSY PORT MORESBY
AMEMBASSY CANBERRA
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY KINSHASA
AMEMBASSY NOUAKCHOTT
AUS MISSION GENEVA 958
AMEMBASSY TOKYO

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EO 11652: NA
TAGS: EMIN, EINV, CI
SUBJ: GOC ANNOUNCES APPROVAL FOREIGN INVESTMENT TO DEVELOP
QUEBRADA BLANCA OREBODY

1. AT APRIL 1 CEREMONY MARKING FIRST ANNIVERSARY OF
REORGANIZATION OF CODELCO-CHILE, (STATE COPPER CORPORATION)
MINES MINISTER ENRIQUE VALENZUELA ANNOUNCED GOC APPROVAL OF
THE FALCONBRIDGE-SUPERIOR OIL CONTRACT TO EXPLOIT THE
QUEBRADA BLANCA OREBODY. VALENZUELA REPORTEDLY STATED THAT
THE PROJECT COST WOULD EXCEED $500 MILLION AND WOULD PRODUCE
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100,000 MT OF COPPER PER YEAR. ANNOUNCEMENT OF THIS FIRST
MAJOR FOREIGN INVESTMENT IN CHILEAN COPPER SINCE THE MILITARY
TAKEOVER WAS BURIED IN THIRD SECTION OF LEADING DAILY EL
MERCUIRO, IN ARTICLE FEATURING CODELCO-CHILE ANNIVERSARY.

2. IN SUBSEQUENT DISCUSSION WITH GOC COPPER NEGOTIATOR
ARTURO MCKENNA, EMBOFF LEARNED THAT THE REASON FOR THE SCANTY

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PUBLICITY IS THAT, ALTHOUGH THE PROJECT HAS BEEN APPROVED BY THE FOREIGN INVESTMENT COMMITTEE, THE CONTRACT HAS NOT YET BEEN SIGNED. REPRESENTATIVES FROM BOTH COMPANIES WILL BE COMING TO CHILE SHORTLY TO SIGN THE CONTRACT, AT WHICH POINT A JOINT PUBLIC ANNOUNCEMENT WILL BE MADE.

3. ACCORDING TO MCKENNA, A NEW COMPANY IS BEING FORMED WHICH WILL BE 49 PERCENT CHILEAN AND 51 PERCENT FOREIGN. INITIAL CAPITAL WILL BE $ 50 MILLION, WITH THE LAND BEING PUB UP BY THE GOC COUNTING AS ITS $ 24.5 MILLION SHARE. THE $ 25.5 MILLION TO BE PUT UP BY FALCONBRIDGE-SUPERIOR OIL WILL BE IN CASH. THE NEW COMPANY HEAD-QUARTERS WILL BE IN IQUIQUE. SOME WORK IS ALREADY IN PROGRESS OUT OF THE IQUIQUE OFFICE.

4. THE NEW COMPANY WILL DO A FEASIBILITY STUDY, WHICH SHOULD TAKE ABOUT TWO YEARS AND COST ABOUT $ 10 MILLION. IF RESULTS ARE SATISFACTORY, THE COMPANY WILL HAVE TO RAISE THE CAPITAL FOR THE REMAINDER OF THE PROJECT, WHICH MCKENNA BELIEVES WILL BE CON-SIDERABLY MORE THAN $ 500 MILLION. FOR THE ADDITIONAL FUNDING, 49 PERCENT WILL BE GUARANTEED BY THE GOC AND 51 PERCENT BY THE FOREIGN INVESTORS.

5. A SOMEWHAT NEGATIVE NOTE WAS SOUNDED BY EL MERCURIO WHICH IS AN ARTICLE OF APRIL 10 INDICATED THAT BASIC DIFFERENCES IN THESE CONTRACT NEGOTIATIONS STILL EXISTED. MCKENNA INSISTS THAT THE ONLY OUTSTANDING ISSUE IS THE TAX EXEMPTION FOR IMPORTED GOODS. THE GOC WANTS TO ADD AN AGREEMENT REQUIREING THE PURCHASE OF LOCAL GOODS WHEN AVAILABLE. SINCE THE AMOUNT IN ISSUE WOULD NOT EXCEED 10 PERCENT OF THE TOTAL INVESTMENT, MCKENNA IS CONFIDENT THAT LIMITED OFFICIAL USE

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AGREEMENT WILL SOON BE REACHED.

6. OTHER PROJECTS: THE NORANDA BID TO DEVELOP THE ANDOCOLLO ORE-BODY HAS BEEN HANGING FIRE FOR SOME TIME, ALTHOUGH THIS AGREEMENT, TOO, SHOULD BE SOON CONCLUDED. MCKENNA SAYS THAT HE HAS INTEREST-ING PROSPECTS (UNSPECIFIED) FOR THE EL ABRA OREBODY AND THAT THE GOC HAS DECIDED TO DISPOSE OF MUCH OF ITS HOLDINGS IN THE LA DISPUTADA MINE.

7. COMMENT. IF THE QUEBRADA BLANCA SIGNING PROCEEDS ACCORDING TO SCHEDULE, THIS WILL BE THE FIRST INVESTMENT PROJECT TO BE CONCLUDED OF ALL THE OREBODIES BEING OFFERED BY CODELCO. BOTH ANDACOLLO AND QUEBRADA BLANCA CONTRACTS WERE NEGOTIATED UNDER THE ORIGINAL FOREIGN INVESTMENT LAW (DL-600). THE NEW LAW (SEE SANTIAGO 2366 NOTAL) SPECIFICALLY PERMITTED NEGOTIATING UNDER THE TERMS OF THE ORIGINAL LEGISLATION IN CASES WHERE COMMITMENTS BY THE GOC NO LONGER PERMITTED UNDER THE NEW LAW HAD ALREADY BEEN MADE TO POTENTIAL INVESTORS.
MCKENNA BELIEVS THAT WITH REGARD TO FUTURE NEGOTIATIONS IN OTHER

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LARGE SCALE MINING PROJECTS NOT COVERED BY THESE PROVISIONS, THE
NEW LEGISLATION IS TOO RESTRICTIVE. SPECIAL LEGISLATIVE PROVISIONS
MAY BECOME NECESSARY FOR LARGE MINING PROJECTS IN SUCH AREAS
AS DEPRECIATION, CARRYBACK OF LOSSES, ETC.
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Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Approved on Date:
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